

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 L-03 NSC-05 CIAE-00 INR-07

NSAE-00 PA-01 USIA-06 PRS-01 SP-02 COME-00 TRSE-00

CIEP-01 OMB-01 SS-15 OPIC-03 FRB-03 AID-05 /067 W

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P 191430Z DEC 75

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 3858

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E.O. 11652: N/A

TAGS: EINV, AR

SUBJECT: ARGENTINE NATIONALIZATIONS: STANDARD ELECTRIC

REF: (A) STATE 292771; (B) BUENOS AIRES 7995

1. THIS MESSAGE REPORTS ONLY ON THE STANDARD ELECTRIC (CSEA) CASE. A SUBSEQUENT CABLE WILL REVIEW SITUATION OF BANKS AND EXXON.

2. ON DECEMBER 18, I CALLED ON MINISTER CAFIERO WITH REGARD TO CSEA AND, WITH HIS CONCURRENCE, BROUGHT IN PRESIDENT GABRIELLONI OF CSEA AND ECOM COUNSELOR. CAFIERO WAS ACCOMPANIED BY DI TELLA AND VILLANUEVA. ALL ASPECTS CSEA PROBLEM REVIEWED FOR NEARLY TWO HOURS. DISCUSSION CENTERED ON PROPOSAL DESCRIBED REF (B) WHICH DI TELLA HAD WITH HIM IN FORM OF DRAFT DECREE FOR CAFIERO'S CONSIDERATION. CAFIERO SAID HE HAD NOT HAD CHANCE TO STUDY DRAFT, BUT THAT IF REMAINING DIFFICULTIES CAN BE WORKED OUT, HE WOULD EXPECT SIGNATURE OF DECREE BEFORE END OF THIS YEAR.

3. DURING EXCHANGE BETWEEN GABRIELLONI AND DI TELLA, WHICH OFTEN HEATED, GABRIELLONI STRESSED THAT "ARGENTINIZATION" PORTION OF PROPOSAL WAS ACCEPTABLE TO CSEA AND ITT. BOTH HE AND DI TELLA WERE OF THE OPINION THAT THERE WERE

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TWO OR THREE ARGENTINE FINANCIAL GROUPS WHICH WOULD BE

INTERESTED IN PURCHASING CSEA SHARES. (COMMISSION APPROACH MENTIONED PARA (D) REF (A) HAS BEEN DROPPED.)

4. PRINCIPAL PROBLEM FACING CSEA, GABRIELLONI EMPHASIZED, IS CASH AVAILABILITY. THIS WOULD HAVE TO BE RESOLVED BY SUBSTANTIAL FLOW OF NEW ORDERS FROM ENTEL PLUS SOME DEBT PAYMENT OR CREDIT FOR CSEA. NO FURTHER FINANCING FROM ITT WOULD BE FORTHCOMING UNDER PRESENT IMPASSE.

5. ENTEL ORDERS. EMBASSY NOW HAS COPY OF MINISTRY ECONOMY RESOLUTION 403 OF NOVEMBER 24 WHICH AUTHORIZES NEW ENTEL ORDERS (COPY BEING POUCHED ARA/APU). TERMS AND CONDITIONS OF PURCHASES CONTEMPLATED UNDER THIS RESOLUTION HAVE BEEN INFORMALLY AGREED BY ENTEL AND CSEA ALTHOUGH SIGNATURE OF THE CONTRACTS HAS NOT YET TAKEN PLACE. GABRIELLONI EXPLAINED TO CAFIERO AND DI TELLA THAT VOLUME OF ORDERS PROVIDED FOR IN RESOLUTION WAS INSUFFICIENT AND, WHILE HELPFUL, WOULD NOT SOLVE PROBLEM. ONLY ABOUT 55 WORKERS, OUT OF A NORMAL FORCE OF 2,100, WOULD BE REQUIRED AT CSEA TO FILL THE ORDERS AT PRESENT PROVIDED FOR IN THE RESOLUTION. IT WAS ULTIMATELY AGREED THAT DI TELLA WOULD SET UP MEETING BETWEEN ENTEL, CSEA, THE CORPORACION DE EMPRESAS AND MINISTRY FOR DECEMBER 23 AT WHICH ADDITIONAL ORDERS FROM ENTEL COULD BE DISCUSSED. ONE POSSIBLE ORDER FOR 200,000 TELEPHONE RECEIVING AND TRANSMITTING CARTRIDGES WAS MENTIONED.

6. ENTEL DEBT TO CSEA UNDER CANCELLED CONTRACT. GABRIELLONI MADE EFFECTIVE APPEAL THAT TOTAL AMOUNT OF DEBT UNDER CANCELLED CONTRACT SHOULD NOT BE EMBARGOED IN COURT PROCEEDINGS BUT ONLY PORTION WHICH IN DISPUTE AS THE RESULT OF CONGRESSIONAL INVESTIGATION IN 1973. HE ADDED THAT CSEA DID NOT CONTEMPLATE RECEIVING UNDISPUTED PORTION (ABOUT 559 MILLION PESOS) AS CASH PAYMENT, SINCE CSEA UNDERSTOOD GOA'S TIGHT FINANCIAL POSITION. HOWEVER, ENTEL COULD MAKE STRETCHED OUT OR PARTIAL PAYMENTS WHICH WOULD PROVIDE OPERATING CASE FOR CSEA. DI TELLA TOLD THE MINISTER HE BELIEVED GABRIELLONI'S ARGUMENT WAS VALID AND THAT A COMPLETE EMBARGO OF THE DEBT WAS INEQUITABLE FOR CSEA. THE DEBT QUESTION IS UNDER STUDY, DI TELLA SAID, LIMITED OFFICIAL USE

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BY THE CORPORACION DE EMPRESAS AND IT WAS AGREED THAT AT THE MEETING SCHEDULED FOR DECEMBER 23 THE QUESTION OF PART PAYMENT ON THE DEBT WOULD ALSO BE DISCUSSED.

7. DI TELLA AND GABRIELLONI INTRODUCED AN ASPECT TO THE ITT/CSEA SITUATION WHICH HAD NOT BEEN DISCUSSED EARLIER WITH THE EMBASSY. THERE IS A POTENTIAL PURCHASER FOR THE BUENOS AIRES SHERATON HOTEL OWNED BY ITT. IF THIS TRANS-

ACTION IS COMPLETED, AS MIGHT TAKE PLACE WITHIN A MONTH OR SO, A PART OF THE PROCEEDS WOULD BE USED TO LIQUIDATE CSEA'S FOREIGN DEBT, THUS IMPROVING CSEA'S FINANCIAL POSITION. DI TELLA SAID THAT THIS TYPE OF ARRANGEMENT WOULD BE ACCEPTABLE TO THE GOA PROVIDING IT DID NOT REDUCE THE NET WORTH OF THE SHERATON PROPERTY.

8. AS I SEE IT, THE MOST SIGNIFICANT ASPECT OF THE MEETING WITH CAFIERO WAS THE COMMITMENT MADE BY THE MINISTER AND DI TELLA IN THE PRESENCE OF GABRIELLONI (A) ASSUMING THE GOA PROPOSAL IS MADE ACCEPTABLE TO CSEA/ITT, TO PROMULGATE A DECREE BEFORE THE END OF THE YEAR MAKING THE PROPOSAL OFFICIAL, AND (B) TO DISCUSS AND NEGOTIATE ON DECEMBER 24 REGARDING POSSIBLE INCREASES IN ENTEL ORDERS TO CSEA AND PAYMENT OR ADVANCES TO BE MADE TO CSEA ON THE EARLIER ENTEL DEBT. SUBSTANTIAL PROGRESS TOWARDS RESOLVING CSEA SITUATION WILL HAVE BEEN MADE IF ARRANGEMENTS SATISFACTORY TO CSEA AND ITT EMERGE AS A RESULT OF NEXT WEEK'S MEETING.

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